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SUBJECT: KOMATILAND FOREST DEAL IN DOUBT

REFTEL: 03 PRETORIA 6360

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1. (U) SUMMARY. More than a year after the South African government selected the U.S.-controlled Bonheur Consortium as the preferred bidder in the sale of three-quarters of the Komatiland Forest (KLF), the deal remains unconsummated. Local saw millers, wood products companies, and trade unions filed objections to the deal with the Competition Commission who eventually ruled that the merger between Bonheur and Komatiland Forests would be anti-competitive. At a Competition Tribunal pre-hearing where filing dates were to be discussed, it surfaced that Komatiland's parent company, the state-owned South African Forestry Company Limited (SAFCOL), may withdraw its support for the Bonheur bid. END SUMMARY.

2. (U) More than a year after the South African government selected Bonheur consortium as the preferred bidder in the sale of three-quarters of the Komatiland Forests (KLF), the deal remains unconsummated. In December 2003, then-Minister of Public Enterprises Jeff Radebe hailed the deal as a model for future empowerment transactions and an example of how local communities can benefit from privatization. However, local saw millers, wood products companies, and trade unions quickly lodged objections to the transaction with the Competition Commission, claiming that Bonheur's principal owner, U.S.-controlled Global Forest Products, would control too much of the market and eliminate jobs. After concluding a statutory review of the deal in September 2004, the Competition Commission prohibited the proposed merger between Komatiland Forests and Bonheur. The Commission determined that the merger was likely to "substantially prevent and lessen competition in the market for sawn timber and would result in approximately 2,000 job losses."

3. (SBU) Bonheur immediately appealed the decision to the Competition Tribunal. On January 26, representatives from Bonheur, KLF, the Department of Water and Forestry and the various complainants gathered for a Competition Tribunal pre-hearing to affix future dates for the proceeding. Department of Water and Forestry officials indicated their ongoing support of the merger as have Department of Public Enterprise officials in conversations with Econoff. However, it became apparent during the proceeding that representatives from KLF were uncertain whether its parent company, the state-owned South African Forestry Company Limited (SAFCOL), was prepared to continue support for the Bonheur bid. The Tribunal adjourned the proceedings indefinitely until KLF and SAFCOL were prepared to indicate their future course of action.

KOMATILAND'S INAUSPICIOUS HISTORY

4. (U) This continues the ongoing start-stop saga that has plagued efforts to privatize the Komatiland Forests since 1999. At that time, the U.S. investor Global Environmental Fund (GEF) teamed with Mondi Ltd, an Anglo American group company, to bid on the privatization of the South African Forestry Company Limited (SAFCOL). GEF & Mondi withdrew its bid in August 1999 due to what it perceived to be irregularities in the bid process. The two companies subsequently joined to form Global Forest Products (GFP).

5. (U) Following the unsuccessful 1999 bid process, SAFCOL restructured its forestry assets into three wholly-owned subsidiaries - Amatola Forestry Company, MTO Forestry and Komatiland Forests - and the government re-opened bidding for the Komatiland assets in late 2001. GFP abstained from the bid process because of continuing concerns with the legitimacy of the process. Zama Resources went on to win the bid, but government eventually cancelled the sale after it was found that the CEO of Zama had made secret payments to the chairman of the government's bid evaluation committee.

16. (U) In 2003, government opened bidding on the Komatiland Forests once again. By this time, the Global Forest Products consortium had expanded and consisted of GEF with a 51 percent share, Mondi Ltd. with a 19 percent share and Industrial Development Corporation of SA Ltd. with a 30 percent share. GEF submitted a bid along with empowerment partner Imbokodvo Lemabalabala under the name of Bonheur 50 General Trading. GFP holds a 70 percent share in Bonheur while Imbokodvo Lemabalabala has a 30 percent stake in the company.

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